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CANADIAN GRIDOIL LIMITED

annual report 1967

CANADIAN GRIDOIL LIMITED

HEAD OFFICE

330 - 9th Avenue South West
Calgary, Canada

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The Annual General Meeting of the Shareholders will be held at the Head Office of the Company, 330 - 9th Avenue S.W., CALGARY, Canada on April 30, 1968.

CANADIAN GRIDOIL LIMITED

1967 ANNUAL REPORT

HIGHLIGHTS

FINANCIAL	Increase	1967	1966	1965	1964
Gross Income	21%	\$3,898,284	\$3,230,610	\$2,857,192	\$2,390,370
Cash Flow from Operations .	24%	2,333,347	1,876,101	1,756,373	1,513,859
Net Income	39%	909,526	652,586	735,373	619,581
Cash Flow per share . . .		94c	76c	71c	61c
Net Income per share . . .		32c	26c	29c	25c

OPERATING

Oil Production – net barrels .	20%	1,610,033	1,337,507	1,124,546	940,354
Daily average – net barrels	20%	4,411	3,665	3,080	2,570
Proven Reserves					
Crude oil – net barrels . .	11%	14,396,269	12,985,516	11,134,500	9,059,200
Wells					
Oil – net		123.1	113.6	97.9	84.7
Gas – net		1.41	1	1	1
Royalty interest wells . .		105	101	101	97
Land – net acres		3,276,709	3,292,060	3,156,116	2,304,738

REPORT TO THE SHAREHOLDERS

<i>General</i>	It is a pleasure to report that the year 1967 was one of activity and growth for Canadian Gridoil Limited. Net income for 1967 increased by 39% to \$909,526. Gross income for the year totalled \$3,898,284, an improvement of 21% over 1966. Cash flow from operations increased by 24% to \$2,333,347 from \$1,876,101 shown for 1966.
<i>Active Program</i>	The Company enjoyed a continued high rate of drilling and exploration activity. Of the 62 wells participated in during 1967, 26 oil wells, 2 gas wells and 5 service wells were completed.
<i>Reserves</i>	Over 2,500,000 barrels of additional proven and probable reserves were added during 1967. Total drilled reserves are in excess of 23,600,000 net barrels of which 14,400,000 net barrels are proven. No allowance has been made for undrilled reserves.
<i>Production</i>	Average daily rates of production increased by 20% to 4,411 net barrels of oil per day from 3,665 net barrels of oil per day recorded in 1966.
<i>Capital Expenditures</i>	Capital expenditures for 1967 totalled \$3,000,000 in the exploration, development and land acquisition programs. Additional banking arrangements were made late in 1967 to maintain working capital and to assure an active program for 1968.
<i>Arctic Islands</i>	The Company congratulates Panarctic Oils Ltd., the Government of Canada and other participants for starting, during 1968, a widespread search for new and potentially large oil reserves in the Arctic Islands. Canadian Gridoil has encouraged this project for a number of years and is an active participant.
<i>New Directors</i>	We welcome to the Board of Directors two new members during 1967. Mr. Samuel Beck of New York and Mr. H. Earl Joudrie of Calgary. Both Mr. Beck and Mr. Joudrie bring to the Board of Directors a wealth of business background and experience and are valuable additions to the Board.
<i>Staff</i>	A successful enterprise is as good as the people involved in its operation and we wish to thank all members of our staff for their contributions to the progress and success of the Company.

On behalf of the Board,

S. C. NICKLE, SR.

President

March 8th, 1968

EXPLORATION AND DEVELOPMENT

DRILLING

Canadian Gridoil participated in the drilling of 62 wells in Western Canada during 1967. Eleven of these wells were drilled without cost to the Company. Twenty-six oil wells, 2 gas wells and 5 service wells were successfully completed and resulted in the equivalent of 100% of 14.88 net oil wells and 0.41 net gas wells to the Company.

PRODUCTION

The Company produced 1,610,033 net barrels of oil during 1967 after payment of all royalties. The average daily rate increased by 20% to 4,411 net barrels from 3,665 net barrels per day for 1966.

At year end 1967 the Company held varying working interests in 2,321 gross wells, equivalent to 100% interest in 123.1 net oil wells and 1.41 net gas wells. Canadian Gridoil also owned various royalty interests in 105 producing wells.

LAND HOLDINGS – 1967

	ACRES	
	Gross	Net
Petroleum and Natural Gas Leases		
Alberta	286,419	138,367
Saskatchewan	197,341	196,383
Manitoba	7,824	7,104
	<u>491,584</u>	<u>341,854</u>
Petroleum and Natural Gas Reservations and Permits		
Alberta	144,000	58,965
Saskatchewan	198,691	198,691
Northwest Territories and Arctic Islands	7,112,382	1,262,772
	<u>7,455,073</u>	<u>1,520,428</u>
50% Interest in Minerals		
Saskatchewan	661,427	661,427
Manitoba	753,000	753,000
	<u>1,414,427</u>	<u>1,414,427</u>
Total Acreage	<u><u>9,361,084</u></u>	<u><u>3,276,709</u></u>

50% Interest in Minerals

Canadian Gridoil owns an undivided one-half interest in perpetuity in the minerals (including petroleum and natural gas, but excluding coal), covering 1,414,427 acres located across Saskatchewan and Manitoba. These freehold mineral interests are subject only to a modest annual mineral tax in Saskatchewan and are not subject to similar taxes in Manitoba. No other maintenance costs are involved for these properties.

FOLD OUT MAP

EXPLORATION AND DEVELOPMENT

OPERATIONS IN ALBERTA

Northwest Alberta

During 1967, Northwest Alberta remained the exploration "hot spot" in Western Canada following the major reef oil discoveries at Rainbow in 1965 and Zama in 1966. The search has produced significant new fields in both basins and has expanded across a broad area to further define similar prospective basins which will require additional geophysical study and tests by drilling to achieve exploration success.

Two of these basins located at Southwest Bistcho and Roe Creek are areas where the Company is well represented by land holdings. Both areas have experienced further seismic study and tests by drilling. During 1967 and into 1968 oil or gas shows have been found requiring completion as oil or gas wells. A third area at East Bistcho has successfully shown Sulphur Point gas completions within 4 to 6 miles of acreage in which Canadian Gridoil holds a 25% interest.

At Southwest Bistcho the Company participated in one test which was subsequently abandoned. Four Drilling Reservations were added to the joint holdings of the Company and its associates in the area. Three tests were drilled and abandoned during the 1967-68 winter season. Additional seismic work was also completed and is currently being studied and related to the information obtained from the drilling program.

At East Bistcho one test was drilled by another company, without cost to Canadian Gridoil, and a participation test was drilled with associates during the 1967-68 winter season. Both wells were abandoned. In association with other companies, a further test is now being drilled. This area is now regarded as a potential Sulphur Point gas area.

At Roe Creek, the Company participated in two tests which were unproductive. Both tests materially contributed to further definition of the Roe Creek Basin and following further geophysical analysis a new test in the area is currently being drilled. The Company has recently completed additional negotiations related to land acquisitions in this Basin.

The Company has, during 1967, increased its land holdings in Northwest Alberta to 217,760 gross acres or 66,792 net acres.

LEGEND

GRID OIL LANDS

○ PROPOSED LOCATION
OR DRILLING WELL

✧ OIL WELL (ABANDONED)

◻ INJECTION WELL

— OIL PIPELINE

● OIL WELL

✧ GAS WELL

✧ ABANDONED WELL

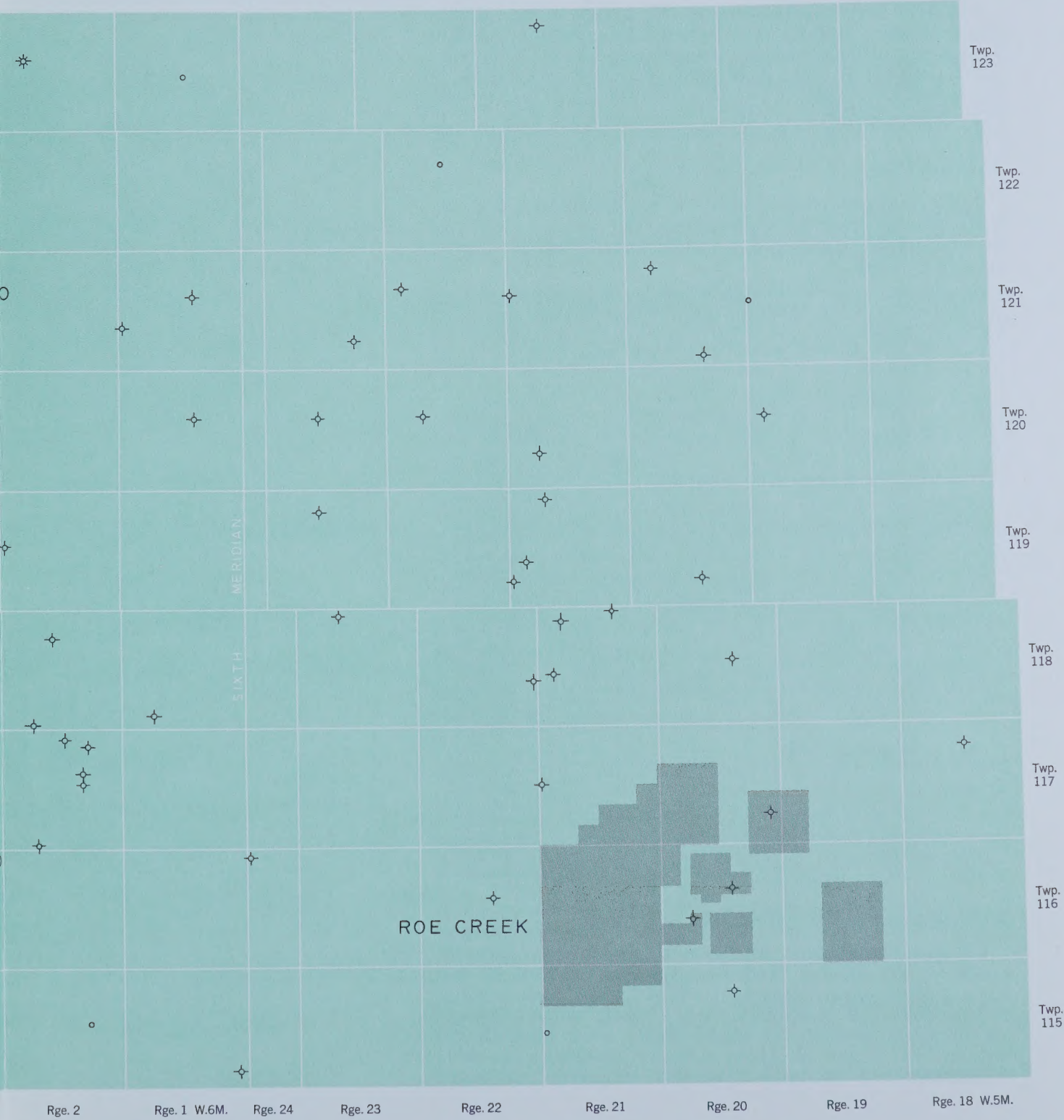
✧ SUSPENDED

--- GAS PIPELINE



ZAMA - BISTCHO AND ROE CREEK

NORTHWEST ALBERTA



Central Alberta

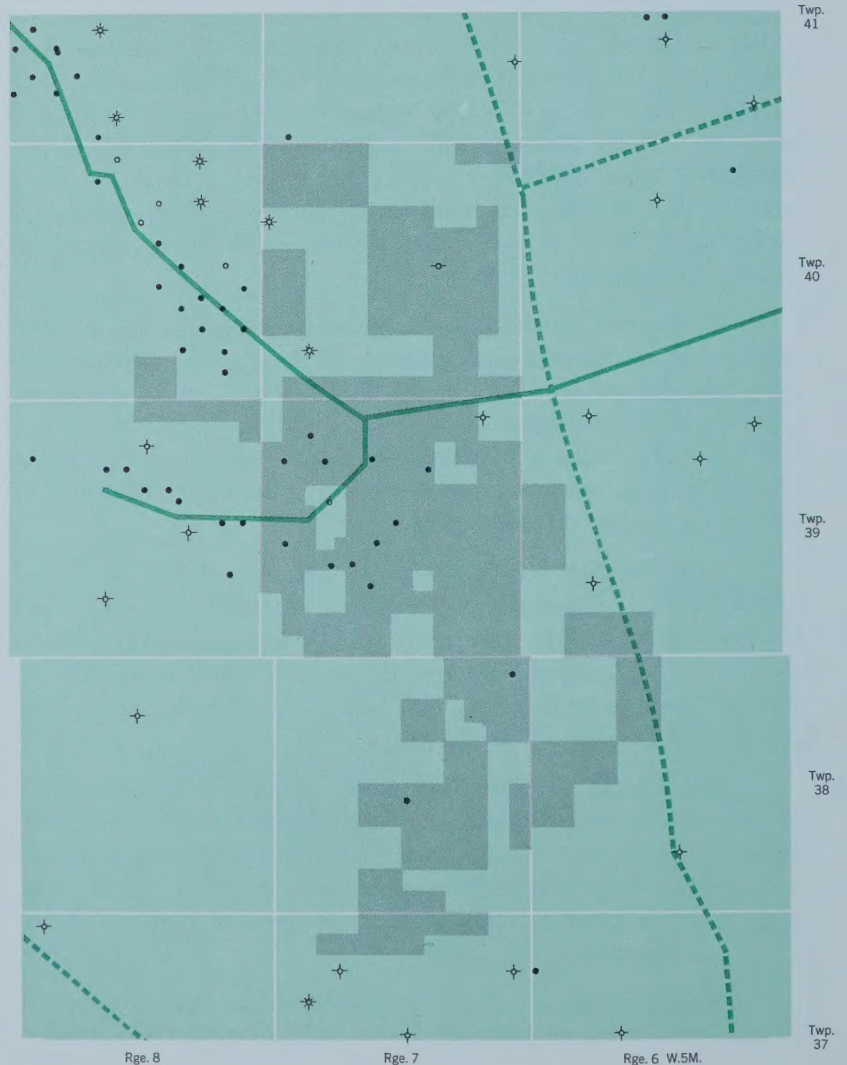
The Company owns an interest in 48,096 gross acres, amounting to 6,356 net acres in the Crimson Lake-Ferrier area. During 1967 three successful tests were drilled. Two development wells resulted in a cardium oil well and a cardium gas cap well. A 4-mile step-out to the Southeast was completed as a cardium oil well. Accelerated development drilling, for both gas and oil, on the Company's lands is waiting on a decision from the Alberta Oil and Gas Conservation Board on spacing applications made by the Company and its associates. Application has been made for 320-acre spacing as it is felt that this spacing will allow for more economical development of the field as opposed to the 160-acre spacing requirement now in effect for cardium oil production. It is anticipated that a number of development oil and gas wells will be drilled during 1968.

CRIMSON LAKE FERRIER CENTRAL ALBERTA



LEGEND

- | | |
|--------------------------------------|--------------------|
| GRID OIL LANDS | • OIL WELL |
| ○ PROPOSED LOCATION OR DRILLING WELL | * GAS WELL |
| ✦ OIL WELL (ABANDONED) | ✦ ABANDONED WELL |
| ◻ INJECTION WELL | ◆ SUSPENDED |
| — OIL PIPELINE | ----- GAS PIPELINE |



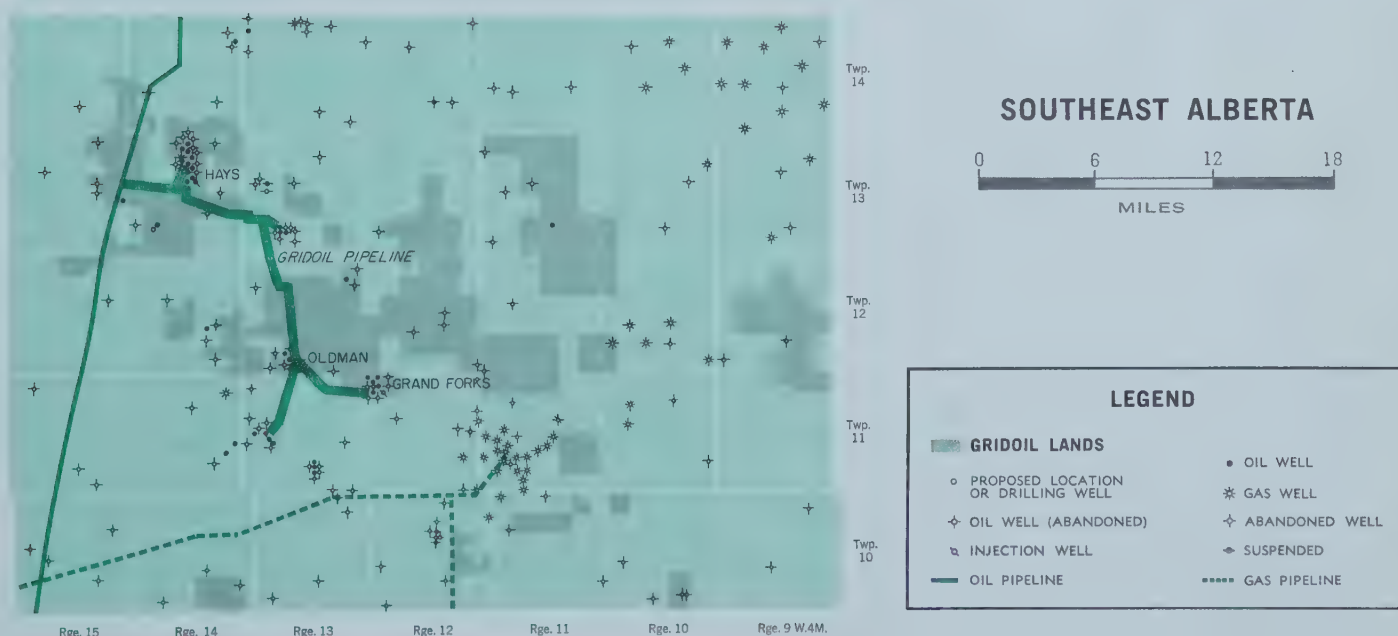
Southeast Alberta

Again, Southeast Alberta continued to be the most active single operating area in the Company's drilling program. Of the 21 exploratory and development wells drilled, 10 were completed as producing oil wells including 3 exploratory discovery wells at Horsefly, Ronalene and in the Hays areas. Three service wells were also successfully completed. Eight tests were dry and subsequently abandoned. Two successful oil wells have been drilled at Grand Forks and Ronalene during 1968 and additional drilling is planned for Southeast Alberta during the present year.

The Company has completed the implementation of a pressure maintenance scheme by water injection in the Hays field. The scheme was placed on a full-scale operating basis in November and the Company is satisfied with the initial performance. Further production history will improve the acceptance of additional proven reserves. During 1967, the Company purchased from another company a 50% interest in one field well and now owns 100% of the working interest in the Hays field.

Canadian Gridoil plans extensions to its existing pipeline system during 1968 to service the field areas recently discovered.

The Company owns an interest in 120,505 gross acres in Southeast Alberta amounting to 101,318 net acres of petroleum and natural gas rights.



OPERATIONS IN SASKATCHEWAN

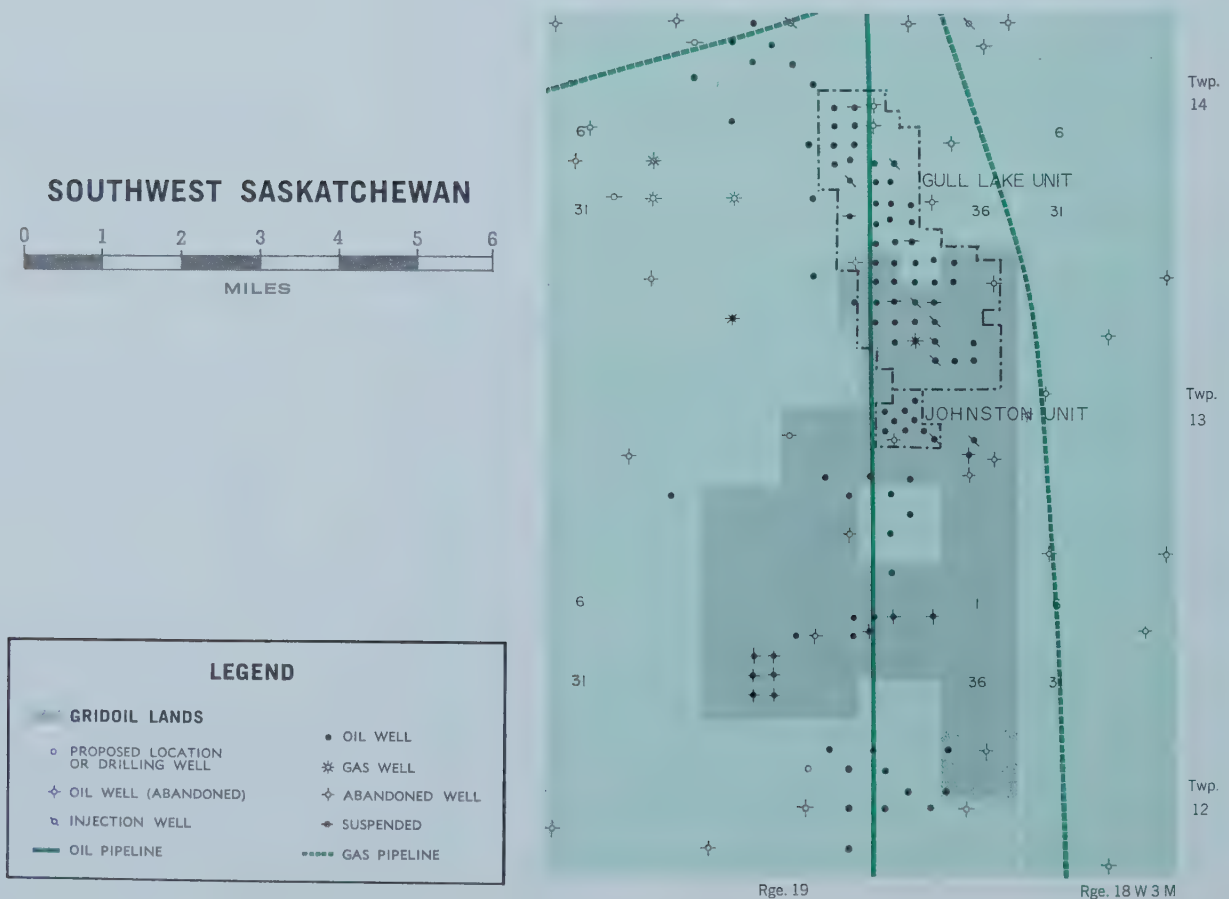
Half of the Company's participation wells were drilled in Saskatchewan during 1967. Of the 31 tests drilled, 8 were without cost to Canadian Gridoil and 15 were completed as oil wells. Two wells were completed as water injection wells and 14 tests were dry and abandoned.

Southwest Saskatchewan

Four infill wells were successfully completed in the Gull Lake Upper Shaunavon Unit and 7 tests were made in the area south of Gull Lake. Six of these were completed as oil wells. Further drilling will be done in this Southwest Saskatchewan area during 1968.

Southeast Saskatchewan

The Benson Voluntary Unit went into operation September 1st, 1967 with Canadian Gridoil as operator of the Unit. The Company owns 54.135% of the Unit and this percentage will increase with the enlargement of the Unit scheduled for 1968. A total of 4 oil wells were placed on production in Southwest Saskatchewan during 1967.



ARCTIC ISLANDS

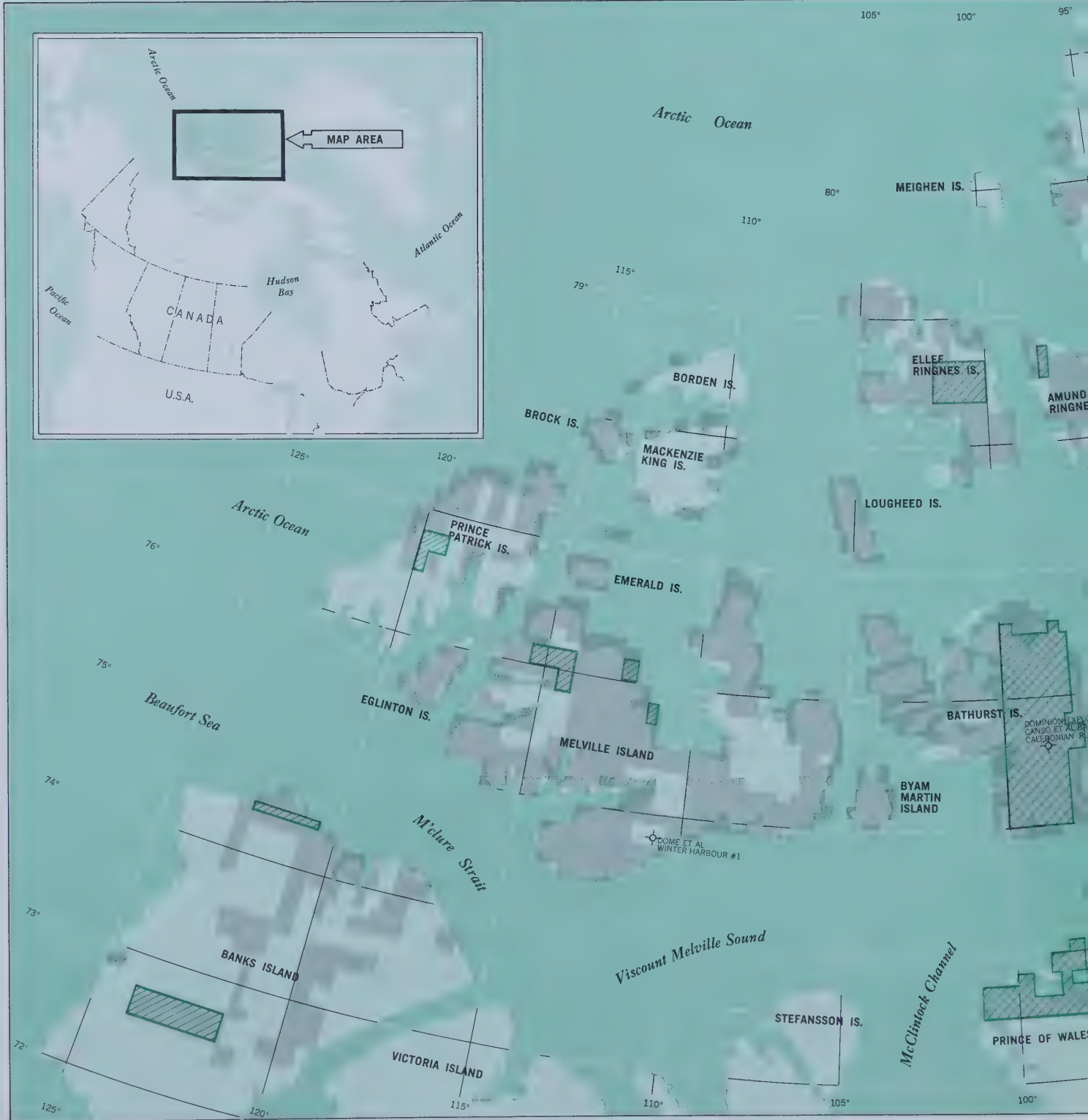
FOLD OUT MAP

PANARCTIC OILS LTD.

Canadian Gridoil owns approximately 1% of the outstanding shares of Panarctic Oils Ltd. and is a participant in the Panarctic \$20,000,000 exploration and drilling program to conduct an oil search on 44 million acres controlled in the Arctic Islands. The search area is equivalent in size to the sedimentary basin of Western Canada and has the possibility of similar long-term results.

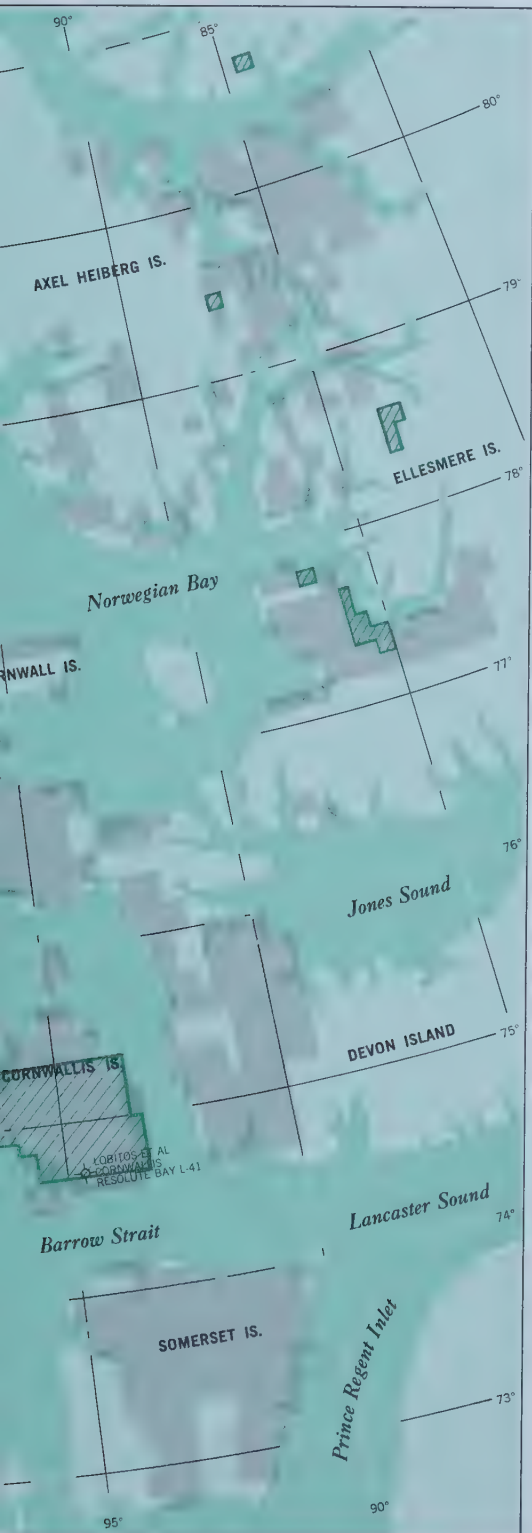
The Company, in addition to its interest in over 7 million gross acres of these lands have been optioned a working interest.

Panarctic field operations will

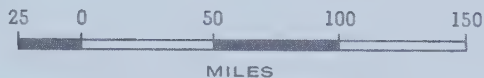


g a shareholder of Panarctic, has a direct
amounting to 1,238,986 net acres. Most
o Panarctic with the Company retaining

t before April, 1968.



ARCTIC ISLANDS



CANADIAN GRIDOIL ACREAGE



LANDS COMMITTED
TO PANARCTIC

Auditors' Report

To the Shareholders of

CANADIAN GRIDOIL LIMITED

We have examined the balance sheet of Canadian Gridoil Limited as at December 31, 1967 and the statements of income and retained earnings and source and use of funds for the year then ended. Our examination included a general review of accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1967 and the results of its operations and the source and use of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

CALGARY, Alberta
March 5, 1968

PRICE WATERHOUSE & CO.
Chartered Accountants

CANADIAN GRIDOIL LIMITED

STATEMENT OF INCOME

For the Year Ended December 31, 1967
(with comparative figures for 1966)

	<u>1967</u>	<u>1966</u>
INCOME		
Crude oil sales, less royalties	\$3,386,480	\$2,775,448
Royalty income	227,680	250,773
Other income	284,124	204,389
	<u>3,898,284</u>	<u>3,230,610</u>
EXPENSES		
Production expenses	601,630	544,662
Administrative and general expenses	579,482	500,789
Interest on long-term debt	383,825	309,058
	<u>1,564,937</u>	<u>1,354,509</u>
INCOME before the undernoted charges	<u>2,333,347</u>	<u>1,876,101</u>
Depletion and depreciation (Note 1)	1,525,710	1,219,982
Amortization of note discount and issue expense	3,533	3,533
	<u>804,104</u>	<u>652,586</u>
INCOME before extraordinary item	804,104	652,586
Profit on sale of investment in shares of Scenic Oils Ltd.	<u>105,422</u>	<u>—</u>
NET INCOME for the year	<u>\$ 909,526</u>	<u>\$ 652,586</u>

STATEMENT OF RETAINED EARNINGS

For the Year Ended December 31, 1967
(with comparative figures for 1966)

	<u>1967</u>	<u>1966</u>
Retained Earnings at beginning of year	\$2,203,010	\$1,550,424
Net Income for the year	909,526	652,586
Retained Earnings at end of year	<u>\$3,112,536</u>	<u>\$2,203,010</u>

ASSETS

	<u>1967</u>	<u>1966</u>
CURRENT ASSETS		
Cash	\$ 293,993	\$ 628,511
Funds on guaranteed deposit	2,400,000	1,600,000
Accounts receivable	633,408	464,588
Inventories, at cost	66,245	48,319
Prepaid expenses	23,151	18,387
	<u>3,416,797</u>	<u>2,759,805</u>
 INVESTMENT IN SCENIC OILS LTD., parent, 150,000 shares at cost less dividends received	 —	 337,500
 CAPITAL ASSETS, at cost (Note 1)		
Mineral interests	2,122,130	2,122,130
Oil and gas properties	14,855,105	12,401,226
Production equipment	3,601,069	3,050,632
Pipeline	362,958	356,006
Other equipment	206,348	171,846
	<u>21,147,610</u>	<u>18,101,840</u>
Less - Accumulated depletion and depreciation (Note 1)	7,525,210	6,042,237
	<u>13,622,400</u>	<u>12,059,603</u>
 OTHER ASSETS		
4% Mortgage receivable due 1973	675,000	675,000
Sundry shares and royalties	100,339	96,339
Refundable deposits	43,216	54,891
Unamortized note discount and issue expense	14,632	18,165
	<u>833,187</u>	<u>844,395</u>
	 <u><u>\$17,872,384</u></u>	 <u><u>\$16,001,303</u></u>

The Auditors' Report is attached

OIL LIMITED

December 31, 1967

(figures for 1966)

LIABILITIES

	<u>1967</u>	<u>1966</u>
CURRENT LIABILITIES		
Accounts payable	\$ 571,818	\$ 449,263
Current portion of long-term debt	<u>1,130,900</u>	<u>838,000</u>
	1,702,718	1,287,263
LONG-TERM DEBT, less current portion		
Bank loans (secured) payable in monthly instalments of \$80,500	4,596,000	4,062,000
Bank loan (secured) payable \$32,400 annually and \$195,400 payable in 1972	292,600	—
6% Note payable in annual instalments of \$100,000	100,000	200,000
7¼ % Note payable in annual instalments of \$32,500	292,500	325,000
5½ % Sinking fund redeemable notes, Series A, due July 1, 1976 (Note 2)	<u>1,387,000</u>	<u>1,535,000</u>
	6,668,100	6,122,000
SHAREHOLDERS' EQUITY		
Share capital —		
Authorized —		
5,000,000 shares of a par value of 45c each		
Issued —		
2,471,350 shares	1,112,107	1,112,107
Capital in excess of par value	5,276,923	5,276,923
Retained earnings since February 18, 1963	<u>3,112,536</u>	<u>2,203,010</u>
	9,501,566	8,592,040
APPROVED ON BEHALF OF THE BOARD		
S. C. NICKLE, SR., Director		
A. R. MORISON, Director		
	<u><u>\$17,872,384</u></u>	<u><u>\$16,001,303</u></u>

this Balance Sheet.

CANADIAN GRIDOIL LIMITED

STATEMENT OF SOURCE AND USE OF FUNDS

For the Year Ended December 31, 1967
(with comparative figures for 1966)

	<u>1967</u>	<u>1966</u>
FUNDS WERE OBTAINED FROM		
Net income for the year	\$ 909,526	\$ 652,586
Add – Depletion, depreciation and amortization	<u>1,529,243</u>	<u>1,223,515</u>
	2,438,769	1,876,101
Deduct – Profit on sale of investment in Scenic Oils Ltd.	<u>105,422</u>	<u>–</u>
Cash flow from operations	2,333,347	1,876,101
Increase in long-term debt	1,825,000	2,525,000
Proceeds from sale of investment in shares of Scenic Oils Ltd.	442,922	–
Sundry proceeds	<u>11,675</u>	<u>19,319</u>
	<u>\$4,612,944</u>	<u>\$4,420,420</u>
FUNDS WERE USED FOR		
Acquisition of petroleum and natural gas interests	\$ 365,229	\$ 855,376
Exploration and development	2,716,324	2,020,519
Pipeline	6,952	356,006
Decrease in long-term debt	1,278,900	874,417
Amalgamation expense	–	51,030
Sundry payments	<u>4,000</u>	<u>26,871</u>
	<u>\$4,371,405</u>	<u>\$4,184,219</u>
Increase in working capital	<u>\$ 241,539</u>	<u>\$ 236,201</u>

CANADIAN GRIDOIL LIMITED

NOTES TO FINANCIAL STATEMENTS

1. All costs of exploring for and developing oil and gas reserves are capitalized. The investment in mineral interests and oil and gas properties, including costs of undeveloped properties and production equipment, is being depleted on an over-all basis by the unit of production method based on estimated proven oil and gas reserves.
 2. The sinking fund requirements of the 5½ % notes have been satisfied until 1969 in which year \$74,500 will be due and \$187,500 annually thereafter. The note discount and issue expense are being amortized by the straight-line method over the term of the notes.
 3. The company has a lease on an office building which expires in 1973 (with an option to renew). Under the terms of the lease the company is required to pay all operating expenses and an annual rental of \$245,000. The major portion of the premises is currently subleased at annual rentals aggregating approximately \$254,000.
 4. Under Canadian income tax law drilling and exploration expenditures and lease acquisition costs may be deducted from income in the year of expenditure, or, if such expenditures exceed the income for the year, the excess may be carried forward and applied against the income of subsequent years without limitation as to time. Subject to changes which may arise upon examination by the income tax authorities, the balance of unclaimed expenditures of this nature approximated \$3,731,000 at December 31, 1967. In addition costs of depreciable assets amounting to \$4,450,000 at December 31, 1967 may be claimed against future taxable income at an annual rate of 30% for the majority of such costs.
 5. Direct remuneration of the company's directors and senior officers (including the five highest paid employees) for the year ended December 31, 1967 amounted to \$149,130.
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CANADIAN GRIDOIL LIMITED

330 Ninth Avenue S.W., Calgary, Alberta

CAPITALIZATION

	Authorized	Outstanding
5½ % Sinking Fund Notes, Series A, maturing July 1, 1976	\$ 3,000,000	\$ 1,387,000
Capital Stock, par value 45c per share	5,000,000 shares	2,471,350 shares

DIRECTORS

Samuel Beck	New York, New York
Edward J. Buell, Jr.	Chippawa, Ontario
Eric Connelly	Calgary, Alberta
William L. James	Calgary, Alberta
H. E. Joudrie	Calgary, Alberta
Arthur R. Morison	Calgary, Alberta
Carl O. Nickle	Calgary, Alberta
S. C. Nickle, Sr.	Calgary, Alberta
Sam C. Nickle	Calgary, Alberta

OFFICERS

S. C. Nickle, Sr.	President
Sam C. Nickle	Vice-President
Arthur R. Morison	Treasurer
William L. James	Secretary

BANKERS

Bank of Montreal

TRANSFER AGENTS AND REGISTRARS

CANADA

Guaranty Trust Company of Canada
Toronto and Calgary

U.S.A.

The Bank of New York
New York, N.Y.

AUDITORS

Price Waterhouse & Co.

EXCHANGE LISTINGS

American Stock Exchange
Toronto Stock Exchange
Calgary Stock Exchange
Symbol CGX

